

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

D.T.E. NO. 01-31 – Phase II (Track A)

REQUEST: Department of Telecommunications and Energy Requests to AT&T Communications of New England, Inc.

DATE: August 29, 2002

DTE-ATT 1-2: See AT&T Comments at 10 Is the purpose of a price floor for Verizon's retail business services to prevent Verizon from conducting a "price squeeze" where it provides a retail service at a price below what it costs its competitors to obtain the inputs to provide a competing service? Please explain AT&T's position that the relevant price floor must reflect "the cost that Verizon itself incurs in the provision of the service," rather than the cost of the UNEs a competitor needs to purchase from Verizon to provide a competing service.

Respondent: John Mayo

RESPONSE: Yes, the purpose of a price floor for Verizon's retail business service is to prevent it from conducting a "price squeeze" where it provides a retail service at a price below what it costs its competitors to obtain the correct inputs to provide a competing service. To clarify AT&T's earlier statement, which could have been ambiguous and subject to misinterpretation, the price floor must reflect two components. First, the price floor must include the prices charged by Verizon for all elements it utilizes itself that underlie the retail-stage service. This is consistent with the Department's statement (but not necessarily Verizon's compliance language) that "the price floor should be equal to the UNE rates for the elements that make up the retail service." Thus, if Verizon's retail service is comprised of, say, six elements (elements that Verizon itself utilizes in the provision of the service) that are made available to competitors, then the price floor must reflect the sum of all six rates. This is true whether the prices charged reflect (as is desirable) the TELRIC cost of the elements or a higher price imposed on competitors. Thus, where, for instance, competitors are compelled to utilize dedicated access services at a rate higher than UNE rates, then the price floor must reflect those higher costs that are imposed upon competitors.

Moreover, the price floor must reflect the prices charged by Verizon for

the element even if – in any given situation – a competitor does not purchase the element. This is because the price floor must reflect the cost that Verizon seeks to impose on its rivals. By establishing this requirement, as is consistent with the Department’s language, Verizon will be provided an incentive to charge rates for its inputs that more accurately reflect its own economic cost in providing the service, i.e., TELRIC, rather than non-economic, inflated charges, such as switched and dedicated access rates. Second, as described by the Department’s Phase I Order, the price floor must include the retail-stage costs “as reflected in the wholesale discount.” Together, these components comprise a price floor that has the best prospects of fulfilling its purpose of preventing Verizon from engaging in a price squeeze, while permitting Verizon and its competitors to vigorously compete on the efficiency merits of their respective service offerings.